

Consumer: Evidence in Consumer Cases

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Fair is Fair

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Fair is Fair

Your client needs an appraisal on a piece of real property. How do you choose the right appraiser for the job?

First, consider the purpose of the appraisal and the type of property. Hire an appraiser with experience in bankruptcy valuation, the property type and the geographic area. Look for appraisers with professional designations from associations such as the Appraisal Institute (AI), American Society of Appraisers (ASA), American Society of Farm Managers and Rural Appraisers (ASRMRA), National Association of Independent Fee Appraisers (NAIFA) and the National Association of Realtors (RAA) to name a few. Appraisal Institute members are held to higher ethical and educational standards than state certified appraisers. Appraiser's qualifications will be listed. Find one at: <http://www.appraisalinstitute.org>.

What about geographic competency? Does your appraiser have the knowledge and experience in the property's market area?

Every appraiser has a state license but it does not mean they are capable of adequately appraising a property in the market area of your property. Someone who is proficient in appraising in Tampa might not be the best choice for appraising a property in Ft. Myers. Ask the appraiser about their core service area. Commercial appraisers with niche specialties, such as golf courses or hotels, may have regional or national geographic competency.

Do appraisers have professional standards?

All state certified and licensed appraisers must adhere to the Uniform Standards of Professional Appraisal Practice (USPAP). USPAP is enforced by state and federal regulations and it sets the minimum standards an appraiser must consider in producing a credible appraisal report.

A current copy of USPAP can be found at <http://www.appraisalfoundation.org> . The Appraisal Foundation is a national non-profit organization that determines USPAP and educational requirements for state certified and licensed appraiser.

How do I find out if an appraiser has been in trouble with the State Board?

All disciplinary actions of an appraiser in Florida can be found at:

<https://www.myfloridalicense.com/w111.asp>.

Have a conversation with the appraiser for a mutual understanding of the scope of work.

- 1) What is the purpose and intended use of the appraisal report? The purpose is to establish the market value of the property. The appraisal is intended for use in bankruptcy court.
- 2) What is the effective date of the appraisal? Typically, the value date is the date of filing. Just make sure all parties, creditors, debtors and their counsel, agree to the same date.
- 3) What about the attendance at the bankruptcy hearing? Make sure the appraiser is aware that in some cases they may be required to attend a bankruptcy hearing to defend their work.

What is market value?

According to the "The Appraisal of Real Estate" Twelfth Edition, Appraisal Institute, Chicago, the definition of market value is:

The most probable price which a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale occurs as of a specified date.
2. An open and competitive market exists for the property interest appraised.
3. The buyer and seller are each acting prudently and knowledgeably.
4. The price is not affected by undue stimulus.
5. The buyer and seller are typically motivated.
6. Both parties are acting in what they consider their best interest.
7. Marketing efforts were adequate and a reasonable time was allowed for exposure to the open market.
8. Payment was made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
9. The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

How does an appraiser determine the market value of a property?

The appraiser must provide an objective, unbiased opinion of value. It is unethical for an appraiser to accept an appraisal assignment contingent upon a specified appraised value, direction in value, or minimum or maximum value.

The appraisal is a detailed report by the appraiser which is part standard process, part research and part art. The quality of each is dependent on the experience and judgment of the appraiser. The market value of a property will be based on the appraiser analyzing recent home sales of comparable properties.

This real estate market is an historic anomaly. How do bank owned properties, REO's, and short sales factor into the valuation process and market value?

The interior and exterior condition of the property will also affect its market value. The appraiser must accurately and adequately describe the overall condition of the property that is being appraised.

The appraiser must make a judgment on the market conditions that affect the property to be appraised. Foreclosures and short sales tend to set the lower end of value when compared to non-distressed arm's length transactions. Arm's length transactions are typically in better condition than REO and short sales.

If the dominant transactions in a particular market area are distressed sales, the appraiser may not be able to avoid using these as comparable properties. Not all market areas, however, are experiencing declining property values.

It is the appraiser's duty to verify the condition of the comparable property at the time of sale and explain those results in the report. Market supported adjustments should be made for market recognized differences. Confirmation and verification of data is the key to developing a credible appraisal report.

Appraiser Best Practices: Comparing Apples to Apples, so Fair is Fair.



